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SUBJECT: Vietnam Stock Market Drops on Global Financial Turmoil

REF: A) Hanoi 1158
B) Hanoi 388

11. (U) The psychology of a global financial downturn has Vietnam's stock market giving back gains made since it bottomed out in May, when the country's domestic macroeconomic problems reached a height.

As noted in reftel A, Vietnam's stock market had a bumpy ride over the past week and a half. On October 6, the market closed at 433 and kept falling for the whole week, down to 379 on October 10 for a total drop of 12.5 percent. On Monday, Oct. 13, it made a slightly better showing, dropping only 1.9 percent to 371, but still very close to the lows earlier in 2008 (reftel B). It recovered some of this loss with the rest of the Asian markets on Oct. 14, jumping up 4.7 percent to 389 but still below the psychological benchmark of 400. Foreign investors have been selling more than buying in the last week, but only account for about 20 percent of trading volume according to the State Securities Commission (SSC). The local bond market is also shaky. The SSC said that foreign banks are unloading Vietnamese bonds and the state-owned Vietnam Development Bank (BIDV) had an unsuccessful bond auction on Friday, October 10.

22. (U) GVN attitudes seem to be a reaction to what the market has done the day before. At the beginning of last week, the SSC told Post that it was not troubled by the global financial turmoil and that they expected recovery within three or four days (reftel A). By the end of last week, the Chairman of the SSC, Vu Bang, publicly floated the idea of market intervention via the State Capital Investment Corporation (SCIC) and a possible narrowing of the trading band around share prices. Both ideas have been tried in the past with questionable success (reftel B).

33. (SBU) By October 14th, after one day of increased share prices, the SSC seems to be taking a more measured approach. Nguyen Son, the Director General of Market Development at the SSC, tells us that they are "monitoring the market closely to have appropriate and timely responses." He added that the SSC thinks that recent declines in the Vietnamese stock market were mainly due to "psychological impacts" of the financial turmoil in the U.S. Currently, Son says, the SSC does not think it is necessary to take measures such as SCIC intervention, narrowing the trading band, or closing the market for a "cooling off" period. He caveats that if the market continues to fall to very low levels, they will consider "appropriate actions." He did not define how low the market would have to fall before such intervention would be necessary. Like many others in Vietnam, Son feels the Vietnamese stock market will improve when the U.S. economy recovers.

44. (U) Post will continue to follow these issues and report septel. This cable was coordinated with Con Gen HCMC.

